CYPRESS FINANCIAL REVIEW

Quarterly news for Cypress clients and partners ▪ www.cypressplanning.com ▪ (856) 720-0029

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Editor's Note

Growth at Cypress

Cypress Financial Planning welcomed Ben Pitts as a new financial planner in May 2012 to help extend the organization's capabilities to a broader set of clients. A native of Southern New Jersey, Ben most recently worked at Goldman Sachs in Philadelphia as a wealth advisor to high net worth clients across the Mid-Atlantic. Ben is a graduate of the United States Military Academy at West Point and earned an MBA at the University of Virginia. Ben is excited to join Cypress and embark on a new phase in his life. Ben and his wife Leslie-Ann welcomed their first daughter Faith in March. To view Ben's full profile visit our website at www.cypressplanning.com. Welcome Ben, it is great to have you on the team!

Financial Tips for Sixtysomethings

In this edition of the Cypress Financial Review, we will continue to explore financial planning issues to keep in mind throughout each decade of life. Previous editions focused on early to mid-career professionals, and we most recently addressed considerations for 40 and 50-somethings. This summer we begin to discuss considerations for individuals on the brink of or beginning to enjoy the "Golden Years" – the 60-somethings.

Members of this experienced group are achieving significant milestones: becoming grandparents, owning their homes outright, retiring from a full-time career. While these milestones provide some nice options, understanding the implications of each decision ahead is critical. There are many questions to ask: When do your retirement savings plans and pensions, combined with Social Security benefits, provide enough cash flow for partial or full retirement? Is your nest egg large enough to sustain you and your spouse if you exceed average life expectancies? Can you improve your financial position if you delay retirement or elect certain benefits?

We aim to highlight some of the key issues you may consider. Proper planning will help you know whether one last push during your 60s is essential or if you can begin enjoying those Golden Years sooner than you had expected. In either case, a thoughtful analysis will provide you with some comfort in this important transition.

In this Issue

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Social Security Decision – An Important Example

As a 60-something, you have probably already determined a retirement age, if you have not retired already. And with retirement, at least for the foreseeable future, comes Social Security benefits. The Employee Benefits Research Institute estimates that, on average, about 40% of retirement income for those older than 65 years of age comes from Social Security. While this percentage may be substantially lower if you have a solid employer pension or had enough foresight and pre-retirement income to sock away substantial savings, Social Security remains a significant source of income for all. Careful planning for Social Security can lead to impressive improvements in lifetime benefits, adding thousands or even hundreds of thousands of dollars over your lifetime that can improve your lifestyle or allow you to give more to charity or loved ones.

So what is there to plan? First, you should be careful to understand the impact of age at application on your lifetime benefit. The US Social Security Administration maintains a current Full Retirement Age (FRA) of about 66 for individuals in their sixties today. At FRA, you receive a full annual benefit. However, even the SSA is kind enough to recognize the desire and need for individuals to end their careers early or defer benefits until later. You are able receive benefits as early as age 62 or defer as late as 70 years old. As you may expect, retiring early comes at a real expense. Drawing on Social Security beginning at 62 may decrease your benefit by as much as 25% annually. Accordingly, deferring your application for benefits past the required FRA may increase the benefit by over 30% if you hold off until age 70. When you add the twists of retirement budgets, personal goals, dual income couples, spousal benefits, life expectancies, and other of your retirement pensions and savings plans, the decision of when to elect benefits becomes complex. Questions to ponder include:

- Do you fully understand the exact monthly income difference when electing Social Security benefits at 62, 66, or even 70?
- Can you quantify what your age at election of benefits means for your annual retirement budget and what more you could do by deferring a year?
- Does it make the most economic sense for one spouse to apply for spousal benefits for a time before applying for his own benefit individually?
- How will your current health and life expectancy impact your decision?

A complex set of rules and individual family scenarios affect the lifetime cumulative benefit of Social Security to you, your spouse, and your children. The Social Security Administration does not give advice on strategy, so it requires understanding various scenarios to clearly illustrate, comprehend, and choose your best option. A financial plan including a broad, quantitative analysis is a great place to start.

Refining Goals and Understanding Options

We cannot emphasize enough that, regardless of your retirement plans, understanding your current financial position is critical. This process allows you to reconcile your current realities with your hopes and dreams.

In the last edition we introduced the idea of putting numbers to your retirement goals. We began with some retirement expenses you should consider and recommended developing a very specific list of monthly and annual expenses. Even if you are a few years out from retirement, having crossed into your 60s, you likely have a better idea of your future budget items. Do you have regular visits to grandchildren or other vacation spots and a good estimate on your travel budget? Do you plan on purchasing a vacation home or moving permanently to warmer location? Are you going to downsize your home locally at some point? Given your employment situation, will you need to pay for an insurance policy as a bridge until Medicare kicks in?

As your projected expenses become clearer, weighing those expenses against the realities of your income and assets will allow you to determine tradeoffs and make decisions. Make certain that you investigate websites, statements, and FAQs for your pensions and other qualified retirement accounts to fully understand your options for each plan. What are the annual benefits for any employer pensions and what options do you have for lump sum payments versus annual benefits? Will you have excess cash flow to afford that vacation home you have dreamed about? Can you stop working full time and take a part-time job? A full income analysis will allow you to refine your retirement plan and make tough decisions. For those still working, this analysis will give you more certainty of the necessary steps prior to retirement and an advisable retirement age. If needed, this analysis may prompt you to take advantage of "Catch Up Contributions" to your 401(k), 403(b), or IRA. For those already retired, understanding your current financial position may help you determine where to take some liberties or if some reining in of spending is advisable.

Focus on Tax Efficiency between 59½ and 70 ½

You want to make certain that tax efficiency is a major focus during your 60's. Whether you are retired or still working, this decade offers a high level of flexibility with regards to retirement accounts. At 59½, the withdraw penalty on your qualified retirement accounts (401(k), 403(b), Traditional IRA) is eliminated, regardless of your working status. Most of us are encouraged to take advantage of tax deferred accounts during our careers, and we do so aggressively through our employer sponsored retirement plans. Be careful not assume that continued tax deferral is always best. Often times, years of low income will create opportunities to take distributions from pre-tax accounts while incurring little or no federal and state taxes. This is especially true if you maintain sizable deductions such as mortgage interests and charitable giving during those periods of lower income. The window of opportunity may be limited to a few short years if you are just beginning retirement and finishing the last few years of mortgage payments. If you do not need the cash during these years, you may also consider converting some of your Traditional IRA into a Roth IRA. This will allow you to continue to grow earnings tax free until you begin taking distributions. A Roth IRA has no required distribution age so you could maintain those assets indefinitely and also pass those accounts to loved ones in a more tax efficient manner. Two factors that improve outcomes on converting from a Traditional IRA to a Roth IRA are low portfolio values in down markets and years when you face lower tax rates. Converting prior to a large rebound in the market will allow you pay tax on a smaller amount of assets that may quickly grow back to a healthy level - that's tax avoidance, which is even better than tax deferral! Again, running the numbers each year may save you thousands of dollars in taxes. Your accountant can advise you on smart strategies to ensure you are taking advantage of this new flexibility to maximize tax efficiency. These are areas where it really pays to have your financial advisor interface with your accountant to ensure the right questions are asked.

Understand Your Portfolio Risk

As you move closer to retirement, you will want to ensure that your portfolio, both taxable and tax deferred, are positioned according to your risk tolerance and goals. Generally speaking, as a 60-something, you are more interested in preservation of capital than growth. This means a smaller allocation to stocks as you move toward retirement. To highlight that, let's consider history. While historical stock market returns may average up to 10% annually over a period of decades, the returns for any given year are fairly volatile. As an example, the S&P 500 returns between 2007 and 2011 were 5% for 2007, -36% for 2008, 26% for 2009, 14% for 2010, and 2% for 2011. Many Americans who planned to retire in 2008/2009 had to reconsider as they were overly allocated to stocks and saw their portfolios drop substantially. In some cases, those same individuals sold their stocks due to fear of further declines and missed the uptick in the years that followed. Had they been properly diversified, taking less risk as they neared retirement, they would have had safe assets (particularly bonds) from which to pull cash flow to retire partially or fully.

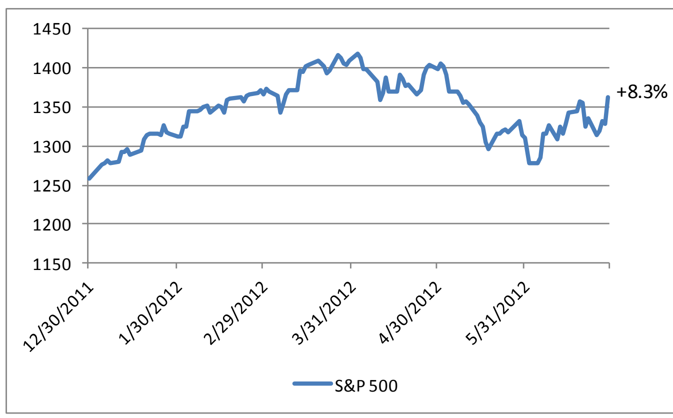
Reassess Contingency Plans

Although we rarely like to address the unexpected in life, your 60's are a time when you should revisit or develop some contingency plans. Emergency savings fund planning, life, disability and long-term care insurance planning, and estate planning are all things that remain very important, especially as your circumstances change. Are the beneficiaries on your retirement and other assets still consistent with your desires? Do you still need as much life insurance as you have or will other benefits cover your spouse now that the children are grown? Does your will still reflect how you would like your assets to flow to different generations and charitable organizations? You will want to visit with your attorney to update her on any changes to your thinking. Again, this is an area where your financial planner can assist to ask the right questions of your attorney and guide you through the process.

Second Quarter 2012 Economic and Investment Review

For the third time in as many years, the sharp gains to kick off 2012 were completely erased as quickly as they came. The sovereign debt situation in Europe worsened significantly in the second quarter, dragging down the outlook for the global economy and with it, the stock market. Factor in some surprisingly weak domestic economic data, and this was a quarter investors would prefer to forget.

Stock Market Performance



After soaring 8.1% in the first quarter and eclipsing 13,000 for the first time since May 2008, the Dow Jones Industrial Average abruptly reversed course and plummeted back into negative territory for the year by early June. The Federal Reserve's announcement of continued monetary easing, combined with a slightly brighter outlook for the euro-zone, led to a modest rebound to finish the month of June. In total, the Dow finished the quarter down 2.5% but still remains in positive territory for the year, up 5.4%. Meanwhile, the S&P 500 was down 3.3% in Q2 and is up 8.3% in 2012. International markets fared much worse with European stocks losing 9.1% and the Chinese market falling 7.7% in the quarter.

US Economy

With election season entering full swing, all eyes are focusing on our nation's job situation. The unemployment rate nudged a tenth of a percent lower over the last three months and currently stands at 8.2%. This snail's pace has been very disappointing when contrasted with the significant drop we saw in the beginning of the year. Employers added an average of only 73,000 jobs per month in April and May compared with a monthly average of 226,000 in Q1. 386,000 Americans filed for unemployment benefits the week ending June 22. A figure above 375,000 generally indicates hiring is not strong enough to meaningfully lower the unemployment rate.

Other data paint a very uncertain picture about the direction of our economy for the remainder of the year. Consumer confidence fell in June for the fourth straight month due to worries about the job market. Meanwhile, on the housing front, sales are up from last year, prices are rising in most cities and builders are starting more projects in the next 12 months. One positive byproduct of a slowing global economy is a reduced demand for oil, which has lowered gasoline prices to $3.41 / gallon nationally. This figure is 18 cents cheaper than the previous summer and well below the price of $4.11 leading up to the 2008 elections.

While we are currently avoiding a recession that is gripping much of Europe, we are not experiencing a rapid expansion that is typical of a recovery period. During the first three months of the year, our economy expanded at a 1.9% annual pace. This low growth prompted the Federal Reserve to lower its forecast for full-year GDP for 2012 to 2.4%. The Fed also believes the unemployment rate will remain elevated for the remainder of the year.

European Sovereign Debt Crisis

The drama continues to unfold. The euro zone suffers from an imbalance caused by a currency shared by countries with dramatically different economic, political, and cultural norms. Three months ago, the hope was that a large-scale intervention by the European Central Bank would end the crisis of confidence that had gripped the Euro area for over two years. Their bailout program had significantly lowered the yields that troubled nations, such as Italy and Spain, were forced to pay on their debt. However, that confidence quickly ebbed in April and the interest rates for those countries' ten-year bonds stand at 5.75% and 6.41% respectively. These interest payments are unsustainable, particularly in Spain's case, considering a national unemployment rate of 24%.

The health of Europe is very significant to the US economy, as 15% of S&P 500 revenues and 30% of S&P technology companies' revenues come from across the Atlantic. As such, investors' attention at the end of June shifted to the European Council meeting which brought together the leaders of all 27 European Union nations in the hopes of deeper integration. A series of bailouts—most recently to the tune of 300 billion Euros to aid crippled Spanish banks in June—have ultimately proven insufficient, reminding us that broad-scale reform is imperative.

One such potential solution is a euro zone banking union whereby all banks will share a common deposit insurance program similar to the United States' FDIC program. This would help stem the steady outflow of deposits from banks located in troubled countries which has created a "negative feed-back loop" between the governments and the financial sector. A second potential solution is a fiscal union which would help fix a fundamental flaw whereby the 17 nations are bound by a common currency but have substantially different spending policies. A comprehensive fiscal union would include member nations ceding some budget-setting power to EU authorities in exchange for a combining of each nation's debt into a shared "eurobond" program.

If there is any good news to come from the prior three months, it appears that every EU nation is committed to keeping the union intact, as a breakup would be calamitous to the global stock markets. Greece, whose citizens have been mired in recession and austerity programs, chose not to elect a prime minister in favor of spurning the euro zone's bailout terms and risk leaving the union. Instead they elected a member of a pro-bailout party in show of solidarity with the rest of Europe.

United States' Ticking Fiscal Time Bomb

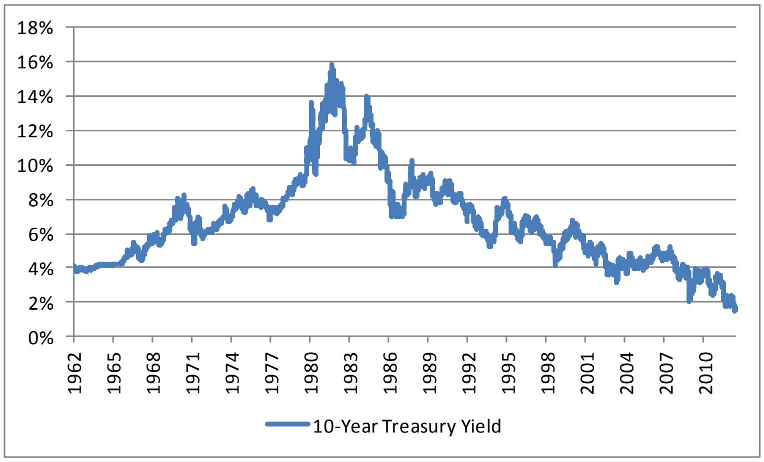
Dubbed a massive "fiscal cliff", significant taxation and budgetary changes are set to take effect on January 1st 2013 that could have devastating effects on our economy.

- A payroll-tax holiday of 2% of Social Security wages that has been in effect since 2011 will end.
- Federal income tax rates revert to pre-Bush levels, rising for nearly all taxpayers, not just the wealthy.
- Across-the-board cuts in domestic and defense spending are triggered.

Combine this with the fact that at some point later this year our nation will again hit a debt ceiling, Congress has immense challenges to overcome, all while the 2012 Presidential election looms. Federal Reserve Chairman Ben Bernanke has warned that these tax increases and spending cuts together amount to 3.5% of the nation's gross domestic product and would steer us back into a recession.

If one party dominates the elections in November, it is likely that their agenda would be pushed through by year's end. Obama wants to maintain lower tax rates for the middle-class and let them rise for the wealthiest Americans. Romney wants deeper spending cuts and low tax rates extended for everyone. Given the closeness of the presidential race and Congress' failed track record of compromise on a long-term solution, it is likely that the proverbial can will be kicked down the road for another year or two. Ultimately, a patchwork of adjustments may ensure all elements of the "fiscal cliff" do not occur at once, prolonging an unclear picture of future policy.

Federal Reserve Stimulus



The Federal Reserve has expressed a desire to keep interest rates low, and has succeeded in doing so with the 10-year US Treasury yielding a record low 1.6%. The idea behind this policy is that low rates promote business formation, low mortgage rates free up more income for other expenditures, and investors are forced into riskier portfolios which would help stock performance.

In June, the Fed decided to renew "Operation Twist" and consequently will buy about $270 billion in longer-term treasury securities and sell its holdings of short-term treasuries in the same amount. This approach appeases inflation hawks who disapprove of the Fed printing money and expanding its balance sheet. Economists view the notion that the Fed still wants to take an accommodative stance as a positive sign, but also recognize that this most recent program may only have a limited positive effect. Interest rates were already low to begin with and the Fed cannot force banks to lend money or businesses to spend their cash on hiring or expansion.

Obama's Health Care Plan

Enacted in 2010, the controversial Patient Protection and Affordable Care Act reemerged in the headlines recently as the Supreme Court was asked to rule on the constitutionality of certain provisions. An individual mandate requiring citizens to carry health insurance or pay a penalty has been widely debated and condemned as illegal. On June 28th by a 5-4 vote, the court held the mandate valid under Congress' authority "to lay and collect Taxes." This ruling means the fall campaign will present voters with a clear choice between Republicans who want to repeal the law and Democrats who created it.

The individual mandate is crucial to the operations of the entire Act. Another major piece of "Obamacare" will require insurance companies to accept all customers and charge the same prices, regardless of an individual's state of health. While this is a very popular requirement, if individuals are permitted to buy insurance after getting sick, then there would not be enough premiums being paid by healthy people to cover the total medical bills of all insured. The individual mandate is the solution and underpins the entire overhaul program.